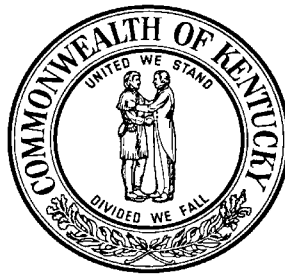


**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT – 2000 TAXES**

May 25, 2001



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

May 25, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Jackson County Sheriff as of May 25, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$1,667,419 for the districts for 2000 taxes. The Sheriff distributed taxes of \$1,666,740 to the districts for 2000 Taxes. The Sheriff was given credit of \$675 for prior year and current year refunds. Taxes of \$69 are due to the districts from the Sheriff and refunds of \$65 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Tommy Slone, Jackson County Judge/Executive

Honorable Tim Fee, Jackson County Sheriff

Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the Jackson County Sheriff's Settlement - 2000 Taxes as of May 25, 2001. This tax settlement is the responsibility of the Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Jackson County Sheriff's taxes charged, credited, and paid as of May 25, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following reportable condition.

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 26, 2002

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

May 25, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 126,265	\$ 254,129	\$ 845,498	\$ 225,399
Tangible Personal Property	6,680	15,043	44,733	41,224
Intangible Personal Property				39,739
Fire Protection	2,258			
Franchise Corporation	23,593	52,390	159,003	
Additional Billings	214	431	1,435	383
Unmined Coal - 1999 Taxes	52	102	349	95
Unmined Coal - 2000 Taxes	38	76	253	67
Limestone, Sand, and Mineral Reserves	71	143	475	127
Undeveloped Oil and Gas	1	1	3	1
Penalties	1,873	3,744	12,412	3,709
Adjusted to Sheriff's Receipt	(158)	(219)	(784)	(216)
Gross Chargeable to Sheriff	<u>\$ 160,887</u>	<u>\$ 325,840</u>	<u>\$ 1,063,377</u>	<u>\$ 310,528</u>
<u>Credits</u>				
Exonerations	\$ 1,825	\$ 3,647	\$ 12,094	\$ 3,414
Discounts	1,471	2,925	9,659	2,848
Delinquents:				
Real Estate	6,961	13,902	46,251	12,328
Tangible Personal Property	208	468	1,393	746
Intangible Personal Property				722
Unmined Coal - 1999 Taxes	12	23	78	21
Unmined Coal - 2000 Taxes	18	35	117	31
Total Credits	<u>\$ 10,495</u>	<u>\$ 21,000</u>	<u>\$ 69,592</u>	<u>\$ 20,110</u>
Net Tax Yield	\$ 150,392	\$ 304,840	\$ 993,785	\$ 290,418
Less: Commissions *	<u>6,679</u>	<u>12,956</u>	<u>39,751</u>	<u>12,630</u>
Net Taxes Due	\$ 143,713	\$ 291,884	\$ 954,034	\$ 277,788
Taxes Paid	143,653	291,766	953,639	277,682
Refunds (Current and Prior Year)	<u>59</u>	<u>118</u>	<u>393</u>	<u>105</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 1</u>

* and ** See Page 4

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
May 25, 2001
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	735,650
4% on	\$	993,785

** Special Taxing Districts:

Library District	\$	(28)
Health District		(37)
Extension District		<u>65</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>0</u></u>
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The accompanying notes are an integral part of the financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 25, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 25, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
May 25, 2001
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2000 through May 25, 2001.

B. Unmined Coal Taxes

The 1999 real estate property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 15, 2000 through August 25, 2000.

The 2000 real estate property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 28, 2000 through May 25, 2001.

Note 4. Interest Income

The Jackson County Sheriff earned \$1,916 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of May 25, 2001, the Sheriff owes \$163 in interest to the school district and \$58 in interest to his fee account. These amounts were subsequently paid on August 26, 2002.

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$18,587 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Jackson County Sheriff collected \$685 of advertising costs and \$1,965 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENT AND RECOMMENDATION

May 25, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The internal control structure lacks a proper segregation of duties. There is a limited number of staff which prevents adequate division of responsibilities. Even though the Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements, compensating controls are not adequate to exclude the lack of adequate segregation of duties comment. In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accepts the risk for a lack of adequate segregation of duties. In order to offset this internal control weakness, we recommend the Sheriff assign duties to another deputy/employee. Duties that should be separated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. This other deputy/employee should document performing these duties by initialing and dating documentation.

Sheriff's Response:

We do understand that the internal control structure lacks a proper segregation of duties. The sheriff is limited, but will try to adequately segregate duties to an additional employee.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Jackson County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Jackson County Sheriff's Settlement - 2000 Taxes as of May 25, 2001, and have issued our report thereon dated August 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's Settlement - 2000 Taxes as of May 25, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 26, 2002

